AN ASSESSMENT OF TAX COLLECTION AND TAX COMPLIANCE WITH SPECIAL REFERENCE TO INDIVIDUAL TAXPAYERS IN INDIA

SYNOPSIS

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INTRODUCTION

In all countries, taxes are one of the state's most important sources of income and, simultaneously, one of the decisive parameters of economic growth. Taxes are mandatory contributions collected by governments levied on the enabled taxpayers. In particular, this funding is used to improve and maintain public infrastructure facilities and to fund public services such as schools, emergency services, and social programs. The government uses taxes to carry out various welfare schemes, including employment programs.

In general, taxes contribute to the country's gross domestic product. In this contribution, taxes help promote economic growth, which impacts the country's economy, and improves society's standard of living, thereby increasing job creation and helping young and unemployed citizens.

Every government imposes two kinds of taxes:

- Direct tax
- Indirect tax

Direct tax is paid by the person on whom it is legally imposed, the impact of money burden and incidence are on the same person, and direct tax cannot be shifted to another person. e.g., Income tax, house tax, capital gains, etc. This is a form of tax that individuals pay directly to the state. The tax obligation and tax burden are on the same person.

Indirect tax is imposed on one person but paid partly or wholly by another person. The impact and the incidence of tax are on a different person. Indirect taxes can be shifted or passed on to another person, e.g., Goods and service tax.

Direct tax demonstrates the importance of tax by reducing income inequality in a progressive tax structure. Citizens are taxed according to their economic situation and promote social and economic equality. Also, in the case of direct tax, taxpayers know and prepare in advance what taxes they may pay in the fiscal year. Direct taxes also help control inflation. Changing the direct tax rate helps regulate the supply and demand of the economy. It is admitted that in India, we lack a tax culture. However, it is a fact that the development of any country's economy largely depends on the tax structure it has adopted. Revenue is responsible for fairly and efficiently collecting the taxes, duties and social security contributions required for financing public expenditure. Revenue is responsible for fairly and

efficiently collecting the taxes, duties and social security contributions required for financing public expenditure. In delivering this mandate, Revenue's key objectives are aimed at improving compliance and maximizing revenue collection. An easy and simple taxation structure facilitates no chance for tax evasion and also brings prosperity to a country's economy. A proper tax culture can develop only when taxpayers and tax collectors discharge their obligations equally well. In budget 2020, a new tax system was announced. The reason behind introducing the system is that there was a demand from most taxpayers to reduce the tax rates on existing slabs. Tax rate changes are some of the most significant and far-reaching decisions a government can take. Ensuring that tax is paid on time and in full by all income earners is key to Revenue's mission of *'Fairly and efficiently collecting taxes and duties and implementing Customs controls'* for tackling evasion and successfully closing off tax avoidance loopholes is crucial to financing essential services.

According to an August 2008 report by the U.S. Government Accountability Office (GAO), "Statutory tax rates do not provide a complete measure of the burden that a tax system imposes on business income because many other aspects of the system, such as exemptions, deferrals, tax credits, and other forms of incentives, and on the other side, The effective tax rate is the percentage of income paid by an individual or a company after taking into account tax breaks (including loopholes, deductions, exemptions, credits, and preferential rates)." In spite of the fact that Statutory Tax Rates change less frequently, Effective Tax Rates constantly change due to the way they are constructed, even though there is no change in tax policy whatsoever, as effective tax rate changes may occur independently of any tax policy change initiative. This shortcoming has long been recognized in various empirical studies.

In developing countries like India, this remains a meaningful discussion because of its vital role in policy implications concerning the Budget deficit. Whether to increase taxes or cut spending is an essential question with profound policy implications, especially as countries attempt to deal with the consequences of the COVID-19 pandemic. Many governments worldwide have tried to stimulate their economies by imposing different tax rates, while others, mostly European Union members, heavily criticized them (Larch and Lechthaler, 2013).

Thus, the relationship between tax rates and tax collection has been widely debated among scholars both in theoretical and empirical studies.

REVIEW OF LITERATURE

Reviewing the literature, we can provide some strategies and guidelines for investigating the problem and choosing the suitable investigation methodology. Literature reviews help in formulate research issues and determine the most appropriate methodology.

The literature review has shown that direct tax is one of the significant contributors to the growth of the Indian economy. Tax rates, tax, and Tax Compliance have been recognized as primary employed attributes in direct tax collection. The following reviews justify the present research by indicating how it is different from other works in the same area:

Table 1: International Reviews

S. No.	Author & Publisher	Year	Title	Objectives	Findings
1	John MacCarthy, Paul Muda, and Prince Sunu Published in: Accounting Department, University of Professional Studies, Accra, Ghana.	2022	Tax Revenue and Economic Growth Nexus in Ghana: Co-integration and Granger causality Test	The paper sought to assess the taxes and economic growth nexus in Ghana. The Cointegration test was used to establish the long-run relationship. In contrast, the Granger Causality test was used to establish the short-run relationship between the variables used in the model.	The study found a unidirectional relationship between tax revenue variables and economic growth. The study supported a positive and significant nexus between direct tax revenue and economic growth and a significant and negative nexus between indirect tax revenue and economic growth.
2	Evans Mubanga Published in: International Journal of Economics and Finance; Published by Canadian Center of Science and Education	2022	Evaluating the Relationship Between Taxation and Economic Growth in Zambia	This study sought to evaluate taxation's effect on Zambia's economic growth following various policy changes aimed at achieving middle-income status as enshrined in Vision 2030.	The study revealed that despite various tax types giving varying results on how they affect economic growth both in the short-run and long-run, they have a positive effect on the growth of the Zambian economy
3	Thiart, C. Published in:	2022	Investigating the impact of country-by-country	The study aims to develop and analyze indicators to investigate the impact	The study's findings reveal a general increase in the average consolidated

	South African Journal of Accounting Research (2022)		reporting on effective tax rates: Exploratory evidence from listed South African multinational groups	of Country-by-Country (CbC) reporting on the effective tax rate of South African multinational groups	ETR per specific indicators. A comparison of the average consolidated effective tax rate (ETR) between multinational and non-multinational groups found a higher ETR for the multinational groups
4	Kadyan, Jagbir, Sobti, Renu, Jenefa, Leena and Naser, M Abu Published in: International Research Journal of Management Science & Technology	2021	Analytical review of direct taxation in India	This research paper attempts to make an analytical review of Direct Taxation in India and accordingly three major research questions are raised. the quantum of direct tax collection, the contribution of direct tax collection towards the total tax revenue collection, and the cost of direct tax collection incurred by the government of India	The study reveals as for the direct tax collection and the cost of direct tax collection has been concerned, there has been a consistent increase in tax collections during the period of study.
5	Mahapatra, S. K., Kaushik, P. Published in: International Journal of Economics and Accounting	2021	Effect of Sensex on direct tax collection: an empirical study from India	This study attempts to analyze the trend of direct tax collection over the years and the changes in the three main components of corporate tax, personal tax, and other direct tax. The paper also tries to establish a relationship between direct tax collections and how it is affected by the market index name ely Sensex	It was found that corporate tax collection was higher than the onal tax collection. It is found that there is a moderately positive correlation between direct tax collection and Sensex although the same is not significant.
6	Sausi, J. M., Kitali, E. J., Mtebe, J. S. Published in: Digital Policy, Regulation, and Governance (2021)	2021	Evaluation of local government revenue collection information system success in Tanzania	This study aims to adapt the updated DeLone and McLean model to evaluate the success of the local government revenue collection and information system (IS) implemented in Tanzania.	The study found that the system quality and information quality had a significant positive impact whilst service quality and trust in the system had a significant negative effect. In contrast, facilitating conditions

					did not have an effect whatsoever. in addition to information technology attributes, building trust in the system is crucial to foster user satisfaction and increasing the public value of the systems
7	Akanbi, A. Published in: International Journal of Business and Economics Research (2020)	2020	The Impact of Tax Collection and Incentives on Economic Growth: Evidence from Nigeria	This study investigated the impact of tax collection and incentives on economic growth in Nigeria. Yearly data for the period 2010-2018 was collected from the Central Bank of Nigeria and the Federal Inland Revenue Service.	The findings revealed that there is a negative but insignificant relationship between tax revenue and economic growth. The findings also revealed that there is a negative but insignificant relationship between foreign direct investment equity and economic growth. While empirical results confirm that there is a negative and significant relationship between foreign direct investment and other capital and economic growth
8	Ferreira-Lopes, A., Martins, L. F., & Espanhol, R.	2019	The relationship between tax rates and tax revenues in eurozone member countries - exploring the Laffer curve	This paper estimate Laffer Curves for direct and indirect taxes for each Eurozone country, using panel data from 1995 to 2011, and choose the three taxes that contribute the most to the government tax revenue: the value-added tax (VAT), the corporate income tax (CT), and the labor income tax (LT).	The results are important for the discussions about fiscal discipline and harmonization in the Eurozone since they exhibit important disparities between countries and taxes. It is observed that, especially for CT and LT, there is a strong divide between the values of the optimal maximum tax rates for Eastern European countries and Western European economies. Additionally, the economic and financial conditions

					of each country also influence the value of the tax rate.
9	Varela, P. J., Dias, L., Miguel, P., Reis, G. Published in: Contaduria y Administracion (2018)	2018	The relationship between the effective tax rate and the nominal rate	To understand the relationship between the nominal rate and the effective tax rate and to evaluate if the differences between them depend on the value of the nominal rate.	The findings conclude that when the nominal tax rate increases, the effective rate increases equally but with slower growth. This relationship is softened if we take into account the value of the nominal tax rate, which shows that companies hangarage the results of to increase in tax.
10	Ferede, E., Dahlby, B., Adjei, E. Economics of Governance	2014	Determinants of statutory tax rate changes by the Canadian provinces	In this paper, they investigate the various fiscal and political factors that influence a government's statutory tax rate change choices.	results indicate that provincial governments that start with higher tax rates are more likely to cut, and less likely to raise, their tax rates.

Table 2: National Reviews

S. No.	Author & Publisher	Year	Title	Objectives	Findings
1	Chawla, P	2021	A Study of Co-Integration Between Government Tax Revenues and Government Expenditures in India	The study's focal point is to analyze the relationship between Government Tax Revenues (GTR) and Government Expenditures (GE) in India and to identify the impact of factors influencing Government Tax Revenues (GTR) and Expenditures (GE)	After examining and analyzing the co-integration between government tax revenues and expenditures in India researcher has found that GTR and GE variables are stationary at I (1) tested by ADF t-statistics, further Johansen Co-integration Model and VCEM test have applied and found that all the series are integrated an order I (1) means GTR and GE variables have long run association
2	Katharine, D. D., Hamilton, R., Stephen, J. L.	2020	Are declining effective tax rates indicative of	To find that the effect of valuation allowances (VA) related to prior-period	The results suggest firms' loss histories and GAAP rules influence inferences

	Published in: Journal of Accounting and Economics (2020)		tax avoidance? Insight from effective tax rate reconciliation s	losses biases GAAP ETRs. To find that VAs explain cross-sectional differences in ETRs for both domestic and multinational firms.	from tax avoidance proxies.
3	Huang, S. H., Yu, M. M., Chen, M. H. Published in: Pacific Economic Review (2017) Volume 22 issue 4	2017	The efficiency of Tax Collection and Tax Management in Taiwan's Local Tax Offices	This study investigated the performance of individual departments and the efficiency of resource utilization in tax offices	The findings indicated that the highest levels of overall inefficiency were due to the o inability to collect taxes (intermediate outputs) in Hsinchu County (9.27%), Chiayi County (3.25%), and Pingtung County (20.44%), which require ed reduction in the number of instances of inability to collect property taxes by 5619, 1258 and 12 350 cases, respectively.
4	Richardson, G., Lanes, R. Published in: Journal of Accounting and Public Policy (2017) Volume 26 issue 6	2017	Determinants of the variability in corporate effective tax rates and tax reform: Evidence from Australia	This study examines the determinants of the variability in corporate effective tax rates in Australia spanning the Ralph Review of Business Taxation reform	Results indicate that corporate effective tax rates are associated with several major firm-specific characteristics, including firm size, capital structure (leverage), and asset mix (capital intensity, inventory intensity, and R&D intensity). While the Ralph Review tax reform had a significant impact on many of these associations, corporate effective tax rates continue to be associated with firm size, capital structure, and asset mix after the tax reform.
5	Dash, B. B., Angara, V. R.	2013	Intergovernm ental	To examines whether the impact of	The evidence in the study finds that tax

	Published in: Public Budgeting and Finance (2013)		Transfers and Tax Collection in India: Does the Composition of Transfers Matter?	intergovernmental transfers on the tax effort of Indian states depends on the composition of transfers (conditional vis-à-vis unconditional).	collections, including both indirect and direct taxes, are inversely related to unconditional transfers irrespective of whether they are increasing or decreasing
6	Das, S. P. Published in: Indian Growth and Development Review (2011) Vol. 4 No. 1, pp. 38-52.	2011	The political economy of revenue pressure and tax collection efficiency	The purpose of this paper is to develop a political-economy model to show how political imperatives lead to reforms in administering direct tax collection.	As revenue pressure increases, the "political value" in terms of granting employment falls, and thus efficiency resulting from purely political motives decreases

RESEARCH GAP

Based on different literature searched, it is noted that different studies have been conducted at the international and national levels, which were generally restricted to analyzing the trend of direct tax and indirect tax collection, evaluation of the success of the local government revenue collection, investigating the impact of tax collection and incentives on economic growth. Few researchers have attempted to study determinants of the variability in corporate effective tax rates and factors involved in direct and indirect tax collection, but there is a lack of studies about the study of tax collection, tax liability, tax rates & tax compliance with special reference to various PAN categories of Income Tax liable to pay tax in India, under different Heads of Income. Hence, this study entitled " AN ASSESSMENT OF TAX COLLECTION AND TAX COMPLIANCE WITH SPECIAL REFERENCE TO INDIVIDUAL TAXPAYERS IN INDIA" is aimed to bridge the identified gaps.

NEED OF THE STUDY

Taxation plays an essential role in the process of revenue generation and running various activities in an economy. Direct Tax Collection accounts for half of the gross tax revenue, according to the financial statements of the Government of India.

This study will help the researcher to develop a model to forecast pre-assessment & post-assessment tax collection for the next five years of the study and identify the tax planning, tax evasion, and tax avoidance activities performed by various taxpayers.

This study would also focus on the role of tax rates, tax benefits, and deductions availed by the "PAN Category". Identification of these factors will help in giving suggestions to enhance revenue from direct tax collection and suggesting the ways to how the tax system can be more enlightening, efficient, and competent.

OBJECTIVES OF THE STUDY

The study is undertaken to meet the following objectives:

- To analyze direct tax collection of PAN categories in India.
- To determine and forecast Pre & Post-Assessment of direct tax collection in India.
- To determine the relationship between tax rates and direct tax collection.
- To study the Attitudes and Behavior of Individual Taxpayers Towards Tax and Compliance.

HYPOTHESES TO BE TESTED

H_{01} - There is no significant difference in the direct tax collection of various PAN categories taxpayers.

H_{02}- There is no significant difference in Pre & Post-Assessment of direct tax collection in India.

H_{03}- There is no significant relationship between tax rates and direct tax collection.

During the study, additional hypotheses may be developed and tested.

RESEARCH METHODOLOGY

Duration of the study:

For the study, a period of ten assessment years from 2013-2014 to 2022-2023 will be taken into consideration.

Data Collection:

The study will be based on primary and secondary data. Primary data will be collected by rendering questionnaires to individual taxpayers across India. Secondary data will be collected from the Income Tax Statistics report, Receipt Budget of the Government of India, and Union Budget of the Government of India, along with National and International level and government-published journals, articles sources, and other authentic websites.

Sample Size and Selection Criteria:

In order to define the number of respondents for the collection of primary data, the following methodology has been applied.

The sample size (n) is calculated according to the formula:

$n = [z^2 * p * (1 - p) / e^2] / [1 + (z^2 * p * (1 - p) / (e^2 * N))]$

Table 3: Sample Size Calculation' Measures

Level of Confidence Measure *(z)*	1.96	Recommended value: 1.96 (for 95% confidence level)
Margin of Error *(e)*	0.05	Standard Recommended value: 0.05
Baseline levels of the indicators	0.5	Standard Recommended value: 0.5
Design effect (Deff)	1.5	Standard Recommended value: 1.5
Expected Response Rate	0.8	Standard Recommended value:0.8
Population size *(N)*	5,83,00,000	*According to press release, CBDT, 2022

STEP 1: Initial Calculation

$z = 1.96, p = 0.5, N = 58300000, e = 0.05$

$n = [1.96^2 * 0.5 * (1 - 0.5) / 0.05^2] / [1 + (1.96^2 * 0.5 * (1 - 0.5) / (0.05^2 * 80000000))]$

$n = 384.16 / 1 = 384.16$

$n \approx 384.16$

STEP 2: Multiply by Design effect (Deff)

$n = 384.16 * 1.5 = 576.24$

STEP 3: Adjust for expected non-response to get the final sample size:

$n = 576.24 / 0.8 = 720.3$

n= 720

In order to collect 720 valid responses, the questionnaire will be distributed to over 1000 taxpayers in India.

Research tools and techniques:

Various statistical and analytical tools like ANOVA Two Way, Regression Analysis, Trend Analysis and Forecasting, Laffer Curve, Correlation Analysis and Multivariate Statistical Techniques will be used for analyzing the data. Presentation tools like tables, charts, and graphs will also be used to present the data.

Table 4: Specific Research Methodology for Meeting the Objectives

S. No.	Objectives	Methodology
1	To analyze direct tax collection of PAN categories in India	To analyze this objective, income under various heads of income, direct tax collection, cost of collection and their trend and growth rate will be analyzed considering the PAN

		categories of taxpayers in India for the selected study period.
2	To scrutinize and forecast Pre & Post-Assessment of direct tax collection in India	This objective will be achieved by analyzing and forecasting the direct tax collection by segregating the total direct tax collection into Pre-Assessment & Post-Assessment collection. Pre-Assessment direct tax collection will include tax collection through TDS & Advance Tax, and Post-Assessment will include tax collection through self-assessment & regular assessment. Based on the above analysis, forecasting for pre-post-assessment direct tax collection will be carried out for the next five years of the study.
3	To determine the relationship between tax rates and direct tax collection	To achieve this objective, the Statutory Tax Rate & Effective Tax Rate will be considered for establishing a relationship between tax rates and direct tax collection through Laffer Curve analysis.
4	To study the Attitudes and Behavior of Individual Taxpayers Towards Tax Compliance	To attain this objective, a questionnaire will be framed and served to individual taxpayers of India to study the attitudes and behavior of individual taxpayers towards tax compliance.

Table 5: Proposed Chapter Plan of the Study

Chapter Number	Title
Chapter 1	Introduction
Chapter 2	Review of literature
Chapter 3	Analysis of Direct Tax Collection
Chapter 4	Scrutinize Trajectory of Pre & Post-Assessment Direct Tax Collection
Chapter 5	Relational study of Tax Rate and Direct Tax Collection
Chapter 6	Outlook of Individual Taxpayers Towards Tax Compliance
Chapter 7	Findings, Suggestions & Conclusion

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